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## NOTES

### THE DEPOSITORS' GUARANTY LAW OF OKLAHOMA

#### I

#### A REPLY

My attention has been called to an article, written by W. C. Webster, that recently appeared in your valued journal. The statements of this article are so erroneous and foreign to the facts that I feel that it is my duty as bank commissioner of the state of Oklahoma to correct them.

It is not my purpose to argue the merits or demerits of our guaranty bank law. I feel quite sure, however, that it is your desire to give your readers the real facts pertaining to all business matters. Taking this view, I feel perfectly justified in addressing to you this reply.

I will take up Mr. Webster's charges in their order.

1. I beg to say that under our amended Guaranty Banking Bill provision is made for a system of annual assessments on the average daily deposits of the state banks.<sup>1</sup> The amount of assessment, regulated in detail by the law, may never in any one year exceed 2 per cent. of the average daily deposits. These provisions, in my judgment, remove the most objectionable feature of the old law. This assessment is to continue until a guaranty fund shall have been created equal to 5 per cent. of the total deposits of the state banks; after which only such assessments will be made as are necessary to keep the guaranty fund growing in proportion to the deposits. If, for any reason, the guaranty fund on hand, together with the 2 per cent. assessment, should prove insufficient to pay the depositors of failed banks, the state banking board is empowered to raise additional funds by the issue of a 6 per cent. interest-bearing certificate secured by a claim upon the 2 per cent. assessment to be made the following year.

2. It is true that the attorney-general of this state rendered an opinion in which he said that the deposits were guaranteed by the

<sup>1</sup> The section of the amended banking law of Oklahoma which deals with the assessment is reprinted at the end of this reply.

state of Oklahoma, though in a limited way. Acting upon this opinion, some few of our banks did advertise as above; but today, so far as I know, there is not a state bank in Oklahoma advertising the guaranty of its deposits by the state. The recent legislature passed a law which provides:

No bank shall be permitted to advertise its deposits as guaranteed by the state of Oklahoma, and any bank or bank officer or employee, who shall advertise their deposits as guaranteed by the state of Oklahoma, shall be guilty of a misdemeanor and upon conviction shall be punished by a fine of not exceeding five hundred dollars or by imprisonment in the county jail for thirty days, or by both such fine and imprisonment in the discretion of the trial court.

3. Mr. Webster says that the guaranty fund is redeposited in the banks and kept loaned out by them. Of these funds 50 per cent. has been invested in state warrants bearing interest at the rate of 6 per cent. The balance is kept in banks subject to check. The interest on the investments has more than paid the expenses of administering the office of the state banking board, to whose hands these funds are intrusted. Under our present law, 75 per cent. of the guaranty fund is to be invested in such securities as those in which the state invests its own money, and 25 per cent. is to be kept in cash.

4. Mr. Webster states that the Oklahoma law has not closed the door of hope against the reckless and incompetent banker, but has actually opened it much wider than before; and that the state today seems to be entering upon an era of "wild-cat banking" which, if not checked, will ultimately result in financial disaster. In this connection I beg to say that no man is permitted to take official control of a bank in this state until he gives references as to his moral and financial standing as well as to his business qualifications. I do not mean to say by this that we have no dishonest bankers in Oklahoma, but I do mean to say that our state bankers will compare favorably in this respect with the national bankers in this or any other state. As to "wild-cat banking," I think that it is only necessary to call your attention to the fact that, as revealed by the national and Oklahoma state call of February 5 (we make calls on the same days as the national calls), the national banks held 36.8 per cent. reserve while the state banks held 49.3 per cent., which shows the state banks to be financially stronger than the national banks. So far as I have been able to find out,

there is not another state in this Union whose banks can show reserves equal to this. If this does not show conservatism in a wonderful degree, it does not show anything.

It has been charged frequently by men who are ignorant of the facts, or who wilfully, knowingly, and premeditatedly misrepresent them, that the state bankers of Oklahoma, in order to get business, were paying exorbitant rates on time deposits. In this connection, I wish to add that national banks are being converted into state banks almost daily. Examinations show in all but two instances that the national banks are paying 4 to 7 per cent. on time deposits, while under our guaranty law a state bank is not permitted to pay a greater rate of interest than 3 per cent. on deposits left for a less length of time than six months, and 4 per cent. on deposits left longer. I am pleased to say that the state bankers almost without exception are complying strictly with the ruling of this department in this respect.

Again, Mr. Webster says that the mania for starting new banks is not confined to the towns. He states that in the little village of Harrah, which has about one hundred and fifty inhabitants, two banks have been established, and that their total deposits are less than fifteen thousand dollars. I have sworn statements in this office, by the Harrah State Bank and the State Bank of Commerce (under call of February 5), showing deposits of about fifty thousand dollars. This is a fair sample of the reckless statements made by Mr. Webster. He further states that men of doubtful character are allowed to organize banks in Oklahoma and that one of the new banks was started by a man who had just been released from the state penitentiary. This statement is so absolutely ridiculous and utterly false that it does not deserve notice on my part; and I am quite sure the intelligent readers of your journal will not give it the slightest credit. He openly charges that saloon-keepers and disreputable men generally are permitted to go into the banking business in this state. This is another of his reckless statements unsupported by facts.

He refers to two state-bank failures. There has not been a single state-bank failure in Oklahoma since this law went into operation. The guaranty fund has never suffered one dollar. He refers to the closing of the International Bank at Coalgate and tries to make the public believe that it was done for political purposes. H. H. Smock, the bank commissioner at that time, is as

loyal a Republican as can be found anywhere. He certainly had no desire to do anything that would aid the Democratic party. He closed the bank at Coalgate, not because it was insolvent, but because it had violated the law by permitting the president and cashier to use the funds of the bank, in spite of the efforts of the commissioner, who did everything in his power to bring about the replacement of the money and otherwise to secure compliance with the law. Under our laws active officials of a bank can neither directly nor indirectly use its funds, and officers who so use such funds are deemed guilty of larceny. The directors of the bank at Coalgate expressed their gratitude to the bank commissioner for closing the doors of the bank. It was not a matter of the bank's condition, but purely one of violating the law, that caused the commissioner to take such radical steps. I desire to say that this will be done in every instance where the bank refuses to comply with this feature of the law.

Yet again, Mr. Webster says that most people overlook the fact that 85 to 90 per cent. of all bank deposits are created by loans. I am really glad that he made this statement. It will, at least, show the intelligent bankers of America how absolutely ignorant he is of the banking business. Men do not borrow money to keep it on deposit. The records in this office will show that not 25 per cent. of our deposits are created in this way. I believe that I am justified in saying that what is true in Oklahoma in this respect is true in other states.

I am quite sure that you have no desire to do our fair young state and her great business interests an injustice; and I sincerely hope you will give this reply the same publicity that you saw fit to give Mr. Webster's article, which I regard as the most untruthful and slanderous that has ever been penned against our guaranty law and the state of Oklahoma.

A. M. YOUNG

BANK COMMISSIONER  
STATE OF OKLAHOMA

## EXTRACT FROM THE AMENDED DEPOSITORS' GUARANTY LAW OF OKLAHOMA

### ARTICLE II

"SECTION 2.—There is hereby levied an assessment against the capital stock of each and every bank and trust company organized or existing under the laws of this state for the purpose of creating a Depositors'